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Star Data Systems Inc.

1997 Annual Report



R i g h t o n t h e m o n e y

MISSION STATEMENT

Star Data's mission is to be the prime provider of superior, real-time information services and solutions to the financial services industry. Working together, we distinguish ourselves by creating a challenging, rewarding environment in which constant innovation, individual initiative and productive teamwork are encouraged and recognized. By providing to our customers technologically advanced services and products designed for, or adapted to, their specific needs, we enable them to achieve competitive superiority. For our shareholders, we strive to extend and solidify our markets and to deliver a fair, higher than average return on investment.

CORPORATE PROFILE

Investment and wealth management professionals looking for a true competitive edge look to Star Data, Canada's leading supplier of online, real-time financial information systems and solutions for the financial services industry. Stock market quotations, analytical support, corporate and financial news services from Star Data inform the majority of the country's leading investment dealers, analysts and institutional investors. These services are complemented by a comprehensive range of administrative, investment and asset management systems for complete integration from the desktop through to back-office functions. Star Data is based in Toronto, with offices in Vancouver, Calgary, Winnipeg, London, Markham, Montreal, Halifax and London, UK. The Company employs 500 staff and is listed on the Toronto Stock Exchange under the symbol STY. For more information on the Company's products, services and activities, visit www.stardata.com.



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Financial Highlights

Revenue

(thousands of dollars)



Cash Flow

(thousands of dollars)



Net Income

(thousands of dollars)



Income Statement Information

(thousands of dollars, except per share amounts)

	1997	1996	1995
Revenue	\$67,685	\$44,777	\$31,429
Cash flow from operations	18,318	12,209	9,123
Net income	7,314	5,059	4,742
Cash flow per share	1.18	0.91	1.32
Income per share	0.47	0.38	0.69
Income per share, fully diluted	0.44	0.35	0.57

Balance Sheet Information

(thousands of dollars)

	1997	1996	1995
Working capital (deficiency)	\$4,349	\$3,989	\$(3,056)
Total assets	84,992	66,909	35,200
Shareholders' equity	63,573	50,802	18,560

P r e s i d e n t ' s M e s s a g e

Our business has been built

on adding value
to Canada's
high-growth
wealth management industry.

Canada's wealth management industry continues its tremendous growth, fueled by strong investor confidence, high volumes and demographics that suggest prolonged health for the financial services sector. A low interest rate environment endures, very large pools of fixed term deposits are coming due for re-investment in the next few years, and market trends increasingly show that "baby boomers" are becoming net savers.

Star Data is ideally positioned to benefit from this growth. As a key provider of services to the wealth management sector our constantly evolving products and services give investment professionals a true competitive edge. From real-time market information and news with our StarQuote™ and select Bridge services, to fully integrated asset management solutions for the mutual fund and investment fund management sectors, our customers look to us to make them more effective, more efficient and better able to maximize value.

Today we provide business-critical services to more than 1,000 customers ranging from large financial institutions and national investment firms to individual advisors at over 900 locations across Canada. We expect our customers to demand the best and we are proud of the reputation we have built for premium service.

We will continue to grow as our customers grow and as we attract new customers. Managing growth is an enviable but nevertheless challenging undertaking, and one that needs to be done while containing costs. Our customers look to outsource their processing and technology requirements in response to their desire to manage the maximum amount of wealth for the minimum amount of cost. Star Data directly benefits from this industry trend of using technology aggressively.

Our market position has helped us achieve record results in fiscal 1997. Revenues increased by 51 per cent to \$67.7 million, 23 per cent stemming from internal growth, and the other 28 per cent from the full year revenue

contribution of Baycom, acquired in November, 1995. We have been able to improve our operating margins, and, despite higher asset amortization, net income has increased by 45 per cent to \$7.3 million. We have strong cash flow, over \$18 million in fiscal 1997, and with projected cash flow growth next year, cash on hand at year end of over \$7 million and available lines of credit, Star Data has ample cash resources available to satisfy its re-investment plans and to finance complementary acquisitions.

The needs of our customers, combined with our own substantial growth, require re-investment in new products plus continuous upgrades to existing products and infrastructure. During fiscal 1997 we introduced StarSource™, an intra-day and end-of-day global pricing service, and StarTrader™, a desktop trading system. At the same time we have released three new-generation versions of StarQuote, expanded the functionality of our MPower™ service bureau offering, and made great progress in the redevelopment of our Shareholder Management System.

Our service delivery infrastructure has been strengthened to accommodate our expanding customer base and also, on the information services side of our business, to handle increasing data volumes from exchanges and other information providers. In our data centre, we have considerably expanded our suite of AS/400 processing units to handle growing volumes in our mutual fund processing businesses, and have acquired two Amdahl Millennium™ Global Servers which significantly increased operating capacity, improved performance and enhanced our network processing capabilities to support our information services business.

We are committed to continue high levels of re-investment to ensure that our products and service delivery provide our customers with a competitive advantage. We are similarly committed to our employees who work hard and enthusiastically every day to meet our customers' needs. We have introduced improved benefits, a variable pay compensation program and skills maps which assists with career planning for our staff.

Star Data has grown successfully through our strategic acquisition activities, based on our commitment to provide an ever increasing range of services to

our customers. There are several ways to meet this commitment, one of which is to partner with, or secondly to buy businesses complementary to our own. Our experience shows that when carefully selected and executed, a partnership or acquisition can greatly enhance efficiency, broaden our scope of expertise and considerably reduce time to market for new products and services. A recent example of our strategy has been our acquisition of substantially all of the net assets of Multipath Business Systems Inc., increasing our holding from the previous 50 per cent. We see great potential for the Multipath real-time brokerage accounting package in Canada, and later in the United States. In addition there is further potential for this product as a transaction engine for other products. Star Data will continue to aggressively target acquisitions to extend our portfolio of services to the wealth management industry.

During fiscal 1998 a number of steps will also be taken to increase operational efficiency and, consequently, operating margins. The acquisition course that Star Data has followed for the last several years has resulted in a divisional operating structure and decentralized premises, especially in the Toronto area. This year we will complete our evolution to a functional organization, and will also consolidate our premises into two major sites, in the heart of Toronto's financial district at Commerce Court South, for our sales and customer support operations, and at expanded facilities in Markham, our processing, technology and development centre. We have already successfully completed the data centre move, resulting in a combined operation for all of our processing. These initiatives will result in cost rationalization and also in greater cross-selling and marketing opportunities.

We are excited about our future. We believe we are well positioned to capitalize on the increasing focus on wealth management, and on the financial services industry's growing desire to outsource processing and technology requirements. Our commitment to this industry and to our customers is clear. We believe that we can provide many opportunities for our employees, and good returns for our shareholders.



“We understand the need for us to provide an ever
increasing range
of services to our customers.”

G. Alan Hutton
President and CEO

The background of the left page is a complex financial visualization. It features a circular inset showing a line chart with four distinct data series in red, green, blue, and yellow. The chart shows fluctuating trends, with the red and green lines generally higher than the blue and yellow ones. Surrounding this chart is a dense field of financial data, including stock tickers like 'TorexRes', 'TRX', 'TIH', and 'TD', along with various numerical values such as '0.40', '1.12', '1.5', '6.9', '58.', '56.32', '53.76', and '51.2'. The overall color scheme is dark blue with white and light blue text and lines.

Review of Operations

REVENUE GROWTH

Revenue has grown by 51 per cent to \$67.7 million compared with \$44.8 million a year ago. Revenue in fiscal 1997 includes twelve months of the results of Baycom Inc. which was acquired on November 30, 1995, and which was only included for six months in the 1996 results. After accounting for this acquisition, revenue has increased at an internal growth rate of 23 per cent through fiscal 1997. Growth in transaction processing has been at 29 per cent, and at 18 per cent in information services. The economic commentaries, statistics and demographics analyses are very positive for the wealth management industry. As we look to fiscal 1998, we anticipate that our transaction processing business will continue to grow at a faster rate than information services, as we target combined growth of 20 per cent.

CONTRACT RENEWALS

We have enjoyed several years of customer contract renewals at rates in excess of 95 per cent. This speaks volumes for our customer relationships, product offerings and customer service. We have been successful in renewing and extending the services provided to a number of key customers during the year.

In late 1996, we signed a multi-year contract with TD Securities to provide real-time information and news services to more than 150 traders and fund managers, primarily on TD's busy trading floor. In early 1997, we also announced a five year contract with Royal Trust to provide investment portfolio management software and time-shared operational support for Royal Trust's Fund Management services.

LEVERAGING OUR EXPERTISE

Our AS/400 data centre and operational expertise has helped us win small to mid-range data processing and facilities

management outsourcing contracts. These have been typically add-on businesses, utilizing and leveraging our infrastructure.

In April 1997, we announced the signing of three contracts to provide outsourced technology services, ranging from two to five years and valued at approximately \$5 million, with three Canadian corporations. The largest of these customers, Ault Foods Limited, will be provided with technology services in support of its multiple AS/400 systems as well as their network servers and personal computers.

We expect to maintain this high level of activity with our customer base during fiscal 1998, as we continue to deliver a variety of solutions to the financial services industry. Our level of outsourcing business is not expected to significantly expand in fiscal 1998, while we look for efficiencies through the consolidation of our data centres, and focus further on our core competencies within the financial services marketplace.

TECHNOLOGY INFRASTRUCTURE

During fiscal 1997, we significantly expanded our AS/400 processing units, primarily to accommodate anticipated volume increases for existing customers in the first calendar quarter

"In our fast-paced and demanding business we not only need innovative and comprehensive information services like those provided by Star Data, we need reliable and fast responses to our requests. That combination is critical to the exacting standards we have set for our own client services. We rely on Star Data to be a partner with us, to ensure that our customers always receive the best possible service."

Gerry O'Mahoney, Senior Vice President, Toronto Dominion Bank





Jacques Daoust
President and CEO
National Bank Securities Inc.

"Given the ever increasing activity in our industry, we must constantly rely on leading-edge financial software. National Bank Securities Inc. can always count on Star Data to provide added value products and services which are reliable, comprehensive and flexible enough to fulfill our demands. In doing so, Star Data has developed a strong partnership with National Bank Securities Inc."

of 1997. In addition, units were acquired to handle the processing requirements of new customers. It is anticipated that further investment will be made at the end of calendar 1997 in preparation for an increase in the mutual fund processing needs of our customers. Our technology platform architecture is highly scaleable and can be upgraded very efficiently.

Secondly, in our information services business we have made excellent progress in upgrading the large scale multiprocessors on which our ticker plant runs. We reported last year that a major

challenge for our business has been to continually increase the capacity of these systems to accommodate demands from a customer base, which has grown this year from 12,000 to over 13,500 desktops, and to manage rapidly expanding information feeds being received from North American exchanges and other information and news providers. After significant efforts were

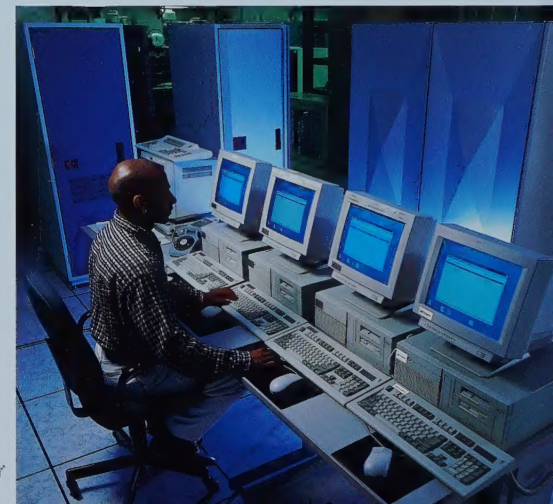
expended reviewing a number of alternatives, in late 1996 Star Data chose a solution from Amdahl Canada. This decision represented a selection based on a combination of cost, risk and performance. The two Millennium Global Server 535 CMOS systems which were installed have exceeded performance expectations from the beginning, have proven to be a cost efficient solution, and have provided an effective expansion path as the business grows.

During fiscal 1998, we are not anticipating significant data centre expenditure, other than the investment to upgrade our AS/400 platforms to accommodate higher transaction volumes for our existing customers.

Rob Singh

NETWORK SERVICES

Network Services had another busy year as we managed growth in traffic on our existing networks. Although network traffic increased at a rate of approximately 5 per cent per month throughout the year, network architecture creativity allowed us to contain costs marginally above fiscal 1996 levels. At the same time, many hours have been spent developing a strategy and laying the groundwork for a replacement network and interfaces designed to provide higher speeds and unparalleled levels of reliability and flexibility.



Next year will see substantial progress in the implementation of a new wide area and local distribution network, the completion of a new downtown Toronto location and a re-engineered corporate and production local area network.

FACILITIES

Significant progress has been made in consolidating a number of office facilities in the Greater Toronto area. Star Data is currently leasing several separate premises as a result of its acquisitions over the last few years.

During fiscal 1997, we began a process with the objective of having two Toronto facilities, one downtown, and one on the outskirts of the city. Recently we have been successful in securing a new facility located in the heart of the Toronto financial district, at Commerce Court South. Our sales, marketing, field support and finance staff will be located by the end of the year at this prime facility, close to many of our customers. We have also leased an additional two floors at our technology

centre in Markham where our operations and development staff will be located.

We will complete our facilities consolidation during fiscal 1998. We are very excited about our new office facilities. These changes will greatly assist in the integration of critical functional areas, and provide us with the opportunity to better service our customers.

FUNCTIONAL ORGANIZATION

During fiscal 1997, the Company commenced the final phase of its evolution to a functional organization. Following a series of acquisitions, like businesses were grouped into divisions during fiscal 1996. We have now sufficiently integrated the operations of the acquired companies, making the move to a full functional organization timely and appropriate. We feel that this new structure will allow us to deliver service more



efficiently. We have already combined our two data centres into one, and feel that there will be significant benefit to Star Data and its customers from the many cross-selling opportunities that will be generated from our functional structure.

"Star Data has quickly responded to the changing needs of Gordon Capital and the financial services industry in Canada as a whole. Star Data's proven track record of outstanding national customer support and the technical flexibility of their product offerings have allowed us to provide a high level of service to our clients."

Peter Bailey, COO and Secretary, Gordon Capital Corporation

ORGANIZATIONAL AND PROFESSIONAL DEVELOPMENT

During a year of continued expansion, an Organizational and Professional Development ("OPD") group was established to

better address the needs of our staff. The goals of this group include developing a consistent corporate culture, establishing policies and plans for training, education programs and staff communications, and consequently reducing attrition and hiring costs.

"Fiscal 1997 marked a year of
accomplishment
and **record growth**
for Star Data Systems Inc."



the best of each to create a very competitive remuneration package. At the same time we have established programs to attract, reward, and retain the high performers in the industry.

A Variable Pay Program has been introduced to all staff levels, effective June 1, 1997, which is based on mutually agreed upon objectives and performance levels, and will reward for contribution and value. This new plan will also compensate for productivity and provide incentive for continuous improvement.

Star Data Systems Inc., Montreal Office
Christina Jones, Remi Brault, Denis Brault, Gilles Harvey, Pierre Hérroux



In addition, OPD has developed the Personal Learning Centre, an internal, interactive skills mapping terminal which is available to every staff member in the organization. This training management tool will help our people acquire and improve skills needed for their particular jobs and career path, define goals and set standards, and assist in matching skill sets with new roles as the Company evolves.

As in the past, we believe in recognizing those amongst us who have excelled, and have provided long service. We would like to thank and congratulate the many staff members who were recognized with achievement and service awards during fiscal 1997. This speaks volumes for our staff's enthusiasm

and commitment to Star Data. We believe that the new programs established by OPD will strongly encourage and foster creative and positive work attitudes which will benefit our staff and Star Data alike.

ALLIANCES

Star Data continues to see significant benefit in partnering, joint ventures and alliances. We recognize that it is not practical to try to do everything ourselves, and these arrangements with partners give us access to additional technological and financial services expertise. Also, we have found that in many cases we are able to reduce our time to market for new products and services. This past year, Star Data was presented with a number of options to establish new and exciting strategic alliances with other market leaders. These partnership agreements allowed us to concentrate on our core business, while investigating opportunities for expansion into new areas.

Last summer, an opportunity to deliver an extensive global

securities data service led us to an arrangement with Telesphere Corporation, a U.S. - based company now owned by Bridge Information Systems Inc., that supplies information on securities from over 600 exchanges and contributors in over 100 countries. The new service, called StarSource, was launched in November of 1996, and provides a database of pricing and related information on over 560,000 securities from around the world.

In the fall, Star Data signed an agreement with Belzberg Financial Markets & News International Inc. to create and market an interactive electronic trading system for professional traders. By incorporating the functionality of Belzberg's two main software products, the new service has been fully integrated into StarQuote *Next Generation*, our real-time quotation and news product. StarTrader was launched in June of 1997 and will enable investment professionals to place orders from their desktop computers and instantly route them to stock exchanges across Canada and North America.



"We were one of Star Data's first StarQuote customers. Star Data has and continues to provide Canaccord with superior systems architecture that is fully integrated into our state of the art PC/LAN configuration. Their products are intuitive and flexible, and above all Star Data is responsive to our needs."

Star Data also announced its partnership with the Alliance for Converging Technologies, a leading research, education and consulting organization that focuses on the impact of emerging



Star Data Systems Inc., Vancouver Office
Stephen Price, Kenny Cheung, Brian Preston, Wendy Cline,
Tim Wesseling, Ziad Alam, Lisa McCook, Paula Uppal, Robert Hamburg

information technologies. This alliance strengthens our commitment to technological excellence, and will help bring value-added services to our customers.

We anticipate continuing to build our business through partnering and forming alliances with industry leaders, and expect that during fiscal 1998 we will follow this trend.



10 and 15 Year Service Awards, and
Outstanding and Special Contribution Award Recipients

SHAREHOLDER MANAGEMENT SYSTEM

We have made solid progress with our ongoing project to re-engineer our mutual fund Shareholder Management System. This new product, to be introduced in the fall of 1997, will provide greater functionality and will offer a more sophisticated graphical user interface. The product will be compliant with Year 2000 requirements and all mutual fund industry standard technology protocols. Its more efficient use of the core AS/400 technology makes the Shareholder Management System a much more productive tool for our customers, and a more competitive product for our sales force.

“Investment and wealth management
professionals
looking for a true competitive edge
look to **Star Data.**”

During fiscal 1998, we will move into the second phase of this project which addresses the underlying technology driving the transaction processing engine. A number of alternatives are being assessed, and we are optimistic that Multipath's leading-edge

Mike McGregor, Lana Jutah



technology will be a very viable option, further helping us in leveraging our investment in Multipath.

CAPITAL TRANSACTION

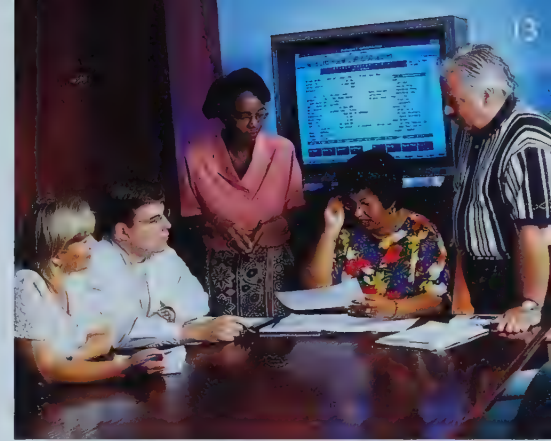
During fiscal 1997, Star Data released 800,000 shares which had been held in escrow pursuant to the agreement to acquire Baycom Inc. A number of financial tests had previously been set, primarily relating to the achievement of certain revenue targets. These targets were far exceeded. The Baycom transaction has had a very positive impact on Star Data. It has diversified our revenue base, has given us access to the high growth mutual fund business within the wealth management sector, and also access to further diversification into the outsourcing business with contracts such as that with Ault Foods Limited.

MULTIPATH

Star Data made its initial investment in Multipath Business Systems Inc. in 1994 when a 50 per cent interest was acquired. Multipath provides a sophisticated accounting and administrative

brokerage solution based on real-time technology. Since then, Multipath has successfully enhanced its product to support institutional equity, institutional fixed income, and now boutique retail brokerage firms. Subsequent to year end, Star Data finalized a transaction to acquire substantially all of the net assets of Multipath for total proceeds of \$11 million, payable over two years. The purchase price can be reduced under certain circumstances, but in any event has been structured in a tax effective manner which will reduce the cost to a little over \$3 million.

We are very pleased to increase our involvement with the Multipath organization, and to welcome the staff as Star Data employees. This staff complement will focus on the delivery of the full retail version of the Multipath product, which coupled with a

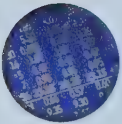


"All of our staff have worked
enthusiastically
to meet new
challenges."

time-shared version, will significantly increase the marketability of the product to Canadian investment firms. We will then be better positioned to look to the U.S. marketplace for further expansion. We are delighted with the technological excellence of the Multipath product and see strong potential in utilizing its real-time transaction processing technology in other aspects of the business. We look forward to fiscal 1998 being a year of recognition for the Multipath product.

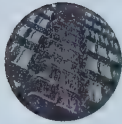
Bruce Ross
Multipath

Products at a Glance



Administration Services

Provides a cost-effective alternative to the in-house administration of investment funds and defined contribution pension plans.



Baynet

Baynet is a financial services transaction and inquiry network serving dealers, brokers and financial services institutions. The independence and product breadth allows Star Data to represent and service the needs of all financial services industry segments.



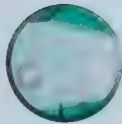
Bridge Information Systems Inc.

Select online services include global real-time information, independent market commentaries and a global news service available through such applications as MoneyCenter for Windows™, ProfitCenter and DDE.



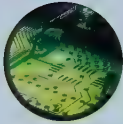
MPower™

Designed for investment organizations that require a comprehensive and seamless system that controls all aspects of investment management from the front-office to the back-office.



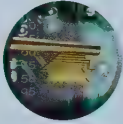
Multipath

Based on the Oracle® Relational Data Base Management System, the Multipath system is a fully integrated, real-time accounting and administrative brokerage software system.



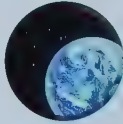
SMS - Shareholder Management System

SMS provides a complete package of recordkeeping processing, customer support and business recovery services to over 30 of the leading Canadian Investment Fund organizations.



StarQuote™ Next Generation

Combines full Windows® functionality with online, real-time financial information which enables users to monitor and analyze prices of North American financial instruments, related news reports and analytical material.



StarSource™

In alliance with Bridge Information Systems Inc. and other data providers, StarSource™ offers unparalleled accuracy and reliability for market prices, corporate actions and security master profile information on securities around the world.



StarTrader™

A comprehensive electronic trading and execution program that allows you to quickly view market activity and perform trades in real-time.



MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

Star Data provides services and solutions to the Canadian financial services industry. The Company has two major revenue streams: one based on providing information services and the other based on providing transaction processing services and solutions.

Information services include StarQuote, the Company's flagship product, select Bridge products and StarSource, a product introduced during fiscal 1997. These products provide real-time financial market information and news to over 13,500 workstations for the Company's 900 information services customers primarily in the investment industry, but also to financial institutions, corporations and private individuals.

Transaction processing services and solutions include shareholder account management and recordkeeping, and fund and trust accounting and management. During 1997, the Company diversified its revenue base by providing outsourcing services to corporations outside of the financial sector.

The largest component of the transaction processing business was acquired from Baycom Inc. in November 1995. The final payment relating to the Baycom acquisition was made in fiscal 1997 following the achievement of certain financial targets. Transaction processing also includes MPower, the Company's investment portfolio management software product and the Company's 50% share of the operations of Multipath Business Systems Inc. (Multipath). Subsequent to year end, the Company completed a transaction under which it purchased substantially all of the net assets of Multipath.

During the 1997 fiscal year, the Company focused on strengthening its operational effectiveness by continuing the integration of its previous acquisitions, increasing its

investment in research and development and upgrading its service delivery infrastructure.

The factors which have the greatest impact on the Company's financial performance are the general volume of investment transactions in the financial services sector, operating margins, research and new product development, capital expenditures and taxes.

FINANCIAL REVIEW

Revenue from information services in 1997 amounted to \$35,493,000 representing growth of \$5,358,000 or 17.8% which was predominantly attributable to increased sales of StarQuote services.

The number of workstations to which StarQuote services are delivered continued to grow. By the end of the year, 13,200 workstations received StarQuote, compared to 12,000 at the end of the previous year. The number of customer accounts grew by 12.5% during 1997, and all major contracts which expired during the year were successfully renewed. Information services also include revenues from the distribution of the Bridge products which generated growth of 18.5% over the previous year.

Transaction processing revenues grew to \$32,192,000 from the \$14,642,000 reported in 1996. Current year revenues include twelve months of revenues from Baycom versus six months in 1996. The number of customer accounts processed grew from 4,000,000 at the end of 1996 to 6,230,000 at the end of 1997, an increase of 56% and reflected the unprecedented growth in the financial services industry over the last few years.

FINANCIAL REVIEW [CONT'D]

Consolidated Statements of Income (Condensed)

Years ended May 31 (thousands of dollars, except per share information)

	1997		1996	
	Amount	Per cent of Revenue	Amount	Per cent of Revenue
Revenue				
Information services	\$35,493	52.4%	\$30,135	67.3%
Transaction processing services	32,192	47.6%	14,642	32.7%
	67,685	100.0%	44,777	100.0%
Operating expenses	48,610	71.8%	32,419	72.4%
Income from operations	19,075	28.2%	12,358	27.6%
Interest, net	757	1.1%	149	0.3%
Amortization	11,004	16.3%	7,150	16.0%
Net income for the year	\$7,314	10.8%	\$5,059	11.3%
Income per share	\$0.47		\$0.38	

Operating margins for 1997 of 28.2% showed an improvement over the 1996 margins of 27.6% primarily as a result of expense savings realized from the integration of Baycom.

Operating expenses amounted to \$48,610,000, an increase of \$16,191,000 over the 1996 level which included only six months of the expenses related to Baycom.

Salaries and benefit costs represented \$8,203,000 of the operating expense increase and directly mirror the growth in the employment base. At the start of the year, the Company employed 342 full-time staff and by May 1997 the full-time staff force had increased to 432. As anticipated, the ratio of salaries to revenue increased from 32.6% in 1996 to 33.7% reflecting the level of employment in the administration services group, which provides the transaction processing services. A number of process automation

initiatives are underway in the administration services group which should positively effect this ratio in fiscal 1998.

Research and development expenses of \$5,127,000 represented 7.6% of 1997 revenues, compared to 5.9% in 1996 and reflects the Company's commitment to enhancing and upgrading its products.

General and administrative expenses increased by \$2,987,000 to \$7,040,000 for 1997 and included costs associated with the higher staff complement, and corporate marketing programs to increase the Company's profile, and professional advisors for their assistance in developing new compensation and work flow re-engineering programs.

Fiscal 1997 amortization of \$11,004,000 represented an increase of \$3,854,000 over the 1996 charge as a result of the significant level of investment in capital and other assets and new product development in both 1997 and 1996.

The Company continues to benefit from the effect of tax losses incurred in prior years and consequently has not recorded a tax charge. Management believes that it will have sufficient tax losses to shelter its taxable income into fiscal 1999.

Basic income per share of 47 cents in fiscal 1997 compares to 38 cents in the previous year. The weighted average number of shares has increased from 13,350,060 in 1996 to 15,522,772 in 1997, and primarily reflects the shares issued from escrow in fiscal 1997 on the acquisition of Baycom.

LIQUIDITY AND FINANCIAL RESOURCES

In the last quarter of fiscal 1997, \$1,827,500 was received from the investment firms who exercised warrants to acquire 430,000 common shares. The warrants were issued in conjunction with the underwriting of the Company's treasury issue in June 1995.

As part of the Baycom acquisition in November 1995, 800,000 shares were placed in escrow to be released on the achievement of certain financial targets, measurable at May 31, 1996, and November 30, 1996 and 1997. The financial targets for the period to May 31, 1996, were met and the targets for November 30, 1996, were exceeded which allowed the accelerated release of all of the remaining escrow shares in December 1996. Consequently, during fiscal 1997, share capital was increased by \$3,125,000 being the market equivalent value of the shares.

During fiscal 1997, the Company settled an amount of \$500,000 due to the former

owners of Linian by way of cash of \$165,548 and 83,613 shares at the contracted exercise price of \$4.00 per share.

The Company generated cash of \$18,318,000 from its 1997 operations, 75% of which was re-invested in capital infrastructure and new product development to allow the expansion of service and delivery capabilities. The remaining \$7,190,000 of financing for capital assets was obtained through lease arrangements. Capital acquisitions amounted to \$15,769,000 and included \$3,000,000 for two Amdahl Millennium processor units which will ensure timely delivery of quote services and provide significant capacity for growth. In addition, the Company invested \$6,000,000 for AS/400 processing units to accommodate the rapid growth of customer requirements for the data centre services and \$3,000,000 for network enhancements. New product developments amounted to \$5,241,000 and primarily related to the Company's Shareholder Management System, the initial phase of which is expected to be introduced in fiscal 1998.

At May 31, 1997, the Company had cash and short-term investments on hand of \$7,404,000 and unused bank credit facilities amounting to \$10,000,000. Management believes that its cash resources, including available bank lines of credit and expected increased cash flow in 1998, will be adequate to fund the Company's current operating strategy, the acquisition of the net assets of Multipath and its 1998 capital and other investments, currently estimated to be similar to the level of investment in 1997. The Company is continually assessing investment and acquisition opportunities to complement its core business. While there are no specific opportunities being pursued, the method of financing of future acquisitions would be determined based upon the size of investment. The Company believes that it has the capacity to attract additional financing for potential acquisitions.

OUTLOOK

Management believes that the volume of investment transactions in the financial markets will remain at the levels experienced during fiscal 1997 and will continue to generate high demand for the Company's products and services. The acquisition of the Multipath technologies will enhance the Company's product offerings in the short term as well as the long term.

Based on these assumptions, the Company estimates that its 1998 revenues will grow at a rate of approximately 20% over fiscal 1997.

In the event there is a financial market correction during fiscal 1998, the Company is well positioned to mitigate its effect by continuing to provide the transaction processing services for all of the financial instruments to which the investing public may turn. The Company's anticipated capital and new product development investments will be made to satisfy customer requirements, but also to keep pace with technological changes. The Company recognizes that new technologies and new approaches may result in a competitive threat, and therefore continuous evaluation and market awareness programs are carried out to monitor these initiatives. The risk of the business being significantly, and adversely, impacted by customers switching to Internet based services is not considered to be a major exposure for the Company at this time.

Operating margins in fiscal 1998 are expected to improve over 1997 due to increases in process automation and a reduction in administrative costs and overheads, primarily as a result of the internal reorganization. The staffing levels are not expected to grow significantly over the current level of 500 employees which includes those transferred from Multipath.

The acquisition of Multipath's net assets will provide the Company with leading-edge real-time transactional processing software. The acquisition cost of \$11,000,000 is dependent upon Multipath meeting certain milestones and is payable in three installments: \$2,000,000 of which was paid on August 5, 1997, \$6,500,000 will be paid on May 31, 1998, and the remaining \$2,500,000 on May 31, 1999. Management believes that this transaction will not have a significant impact on the Company's revenues or operating expenses during fiscal 1998 while the retail version of the real-time brokerage accounting package is completed. However, the tax effective structure of the acquisition will provide some tax benefits which will be realized in future years.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Star Data Systems Inc. and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the consolidated financial statements.

Star Data Systems Inc. maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

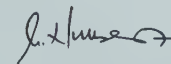
The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board of Directors carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors, and a majority of its members are outside directors. The Audit Committee meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the consolidated financial statements and external auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders. The Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or re-appointment of the external auditors.

Consolidated financial statements have been audited by Ernst & Young, the external auditors, in accordance with generally accepted auditing standards, on behalf of the shareholders. Ernst & Young has full and free access to the Audit Committee.



G. Alan Hutton
President
and CEO



Keith Halbert
Executive Vice President
and CFO

AUDITORS' REPORT

To the Shareholders of Star Data Systems Inc.

We have audited the consolidated balance sheets of Star Data Systems Inc. as at May 31, 1997 and 1996 and the consolidated statements of income and retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Toronto, Canada,
July 11, 1997

(except for note 10 which is dated as of August 5, 1997)



Chartered Accountants

STAR DATA SYSTEMS INC. CONSOLIDATED BALANCE SHEETS

(thousands of dollars)

Incorporated under the laws of Ontario

As at May 31	Note	1997	1996
ASSETS			
Current			
Cash and short-term investments		\$7,404	\$2,866
Accounts receivable		6,986	6,858
Investment tax credits receivable		1,191	1,582
Deposits and prepaid expenses	3	1,089	1,184
Total current assets		16,670	12,490
Capital assets	4	32,661	25,954
Other assets	5	33,964	27,540
Deferred income taxes	6	1,697	925
		\$ 84,992	\$66,909
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities		\$7,849	\$5,639
Amounts owing on acquisitions	7	600	500
Obligations under capital leases	7	3,872	2,362
Total current liabilities		12,321	8,501
Amounts owing on acquisitions	7	—	600
Obligations under capital leases	7	7,255	4,641
Tenant obligations and inducements		1,843	2,365
Total liabilities		21,419	16,107
Shareholders' equity			
Capital stock	8	41,447	35,990
Retained earnings		22,126	14,812
Total shareholders' equity		63,573	50,802
		\$ 84,992	\$66,909

See accompanying notes

On behalf of the Board:


Phillip H. Doherty
Director

G. Alan Hutton
Director

STAR DATA SYSTEMS INC.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(thousands of dollars, except per share amounts)

Years ended May 31	Note	1997	1996
Revenue			
Information services		\$35,493	\$30,135
Transaction processing services		32,192	14,642
		67,685	44,777
Expenses			
Salaries and benefits		22,803	14,600
Service delivery costs		11,335	9,114
Research and development	6	5,127	2,653
Premises and equipment		2,305	1,999
General and administrative		7,040	4,053
		48,610	32,419
Income before the undernoted		19,075	12,358
Interest, net	7	757	149
Income before amortization		18,318	12,209
Amortization		11,004	7,150
Income before income taxes		7,314	5,059
Provision for income taxes	6	—	—
Net income for the year		7,314	5,059
Retained earnings, beginning of year		14,812	9,753
Retained earnings, end of year		\$22,126	\$14,812
Income per share			
	8	\$0.47	\$0.38
Income per share, fully diluted basis	8	\$0.44	\$0.35

See accompanying notes

STAR DATA SYSTEMS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(thousands of dollars, except per share amounts)

Years ended May 31	Note	1997	1996
OPERATING ACTIVITIES			
Net income for the year		\$7,314	\$5,059
Add item not affecting cash			
Amortization		11,004	7,150
Cash flow from operations		18,318	12,209
Net change in non-cash working capital balances related to operations		1,274	(5,776)
Cash provided by operating activities		19,592	6,433
FINANCING ACTIVITIES			
Repayments of term loans, net		—	(5,755)
Amounts repaid on acquisitions		(500)	(1,257)
Increase in (repayment of) obligations under capital lease		4,124	(1,177)
Conversion of convertible debentures payable		—	(3,000)
Proceeds from issue of common shares, net		5,457	26,363
Cash provided by financing activities		9,081	15,174
INVESTING ACTIVITIES			
Net purchases of capital and other assets		(21,010)	(6,409)
Net assets purchased on acquisition of Baycom		(3,125)	(13,196)
Cash used in investing activities		(24,135)	(19,605)
Net increase in cash during the year		4,538	2,002
Cash and short-term investments, beginning of year		2,866	1,218
Indebtedness acquired on acquisition of Baycom		—	(354)
Cash and short-term investments, end of year		\$7,404	\$2,866
Cash flow per share from operations	8	\$1.18	\$0.91

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles, and include the accounts of Star Data Systems Inc. [the "Company"] and its wholly owned subsidiaries, which are inactive. These consolidated financial statements also include the Company's pro-rata share of its 50% interest in Multipath Holdings Inc. ["Multipath"] presented using the proportionate consolidation method of accounting [note 10]. The Company operates primarily in one business segment in Canada as a provider of information services and transaction processing services and solutions to the financial services industry. The Company's significant accounting policies are summarized below:

Cash and short-term investments

The Company has a cash management program which provides for the investment of excess cash balances in short-term investments. These investments are stated at cost, which approximates market value, and are restricted to interest bearing investment grade money market instruments such as bonds or debentures backed by a Government in Canada or term deposits and acceptances endorsed by a Canadian chartered bank, all with maturities of less than twelve months.

Investment tax credits

Investment tax credits ["ITCs"] are accrued when eligible scientific research and experimental development expenditures ["SRED"] are made and there is reasonable assurance that the

credits will be realized. The Company accounts for ITCs using the cost reduction method.

Prior to June 28, 1995, the Company was a Canadian Controlled Private Corporation ["CCPC"], as defined under the Income Tax Act (Canada), and accordingly, was entitled to receive a refund on a portion of its ITCs earned on eligible SRED. As a result of being listed on the TSE, the Company has ceased to qualify as a CCPC and will earn ITCs at a rate of 20% of eligible SRED. These ITCs are no longer refundable but are available in future years to reduce income taxes payable.

The refundable ITCs earned prior to June 28, 1995, are recorded as current ITCs receivable. ITCs earned on eligible SRED subsequent to June 27, 1995, which are available in future years as a reduction of income taxes payable have been recorded as deferred income taxes.

Capital assets

Capital assets are recorded at cost. Rates and bases of amortization are applied to write off the cost of the capital assets over their estimated useful lives at the following annual rates:

Computer network equipment	20% declining balance
Computer processing equipment	30% declining balance
Rental equipment	30% declining balance
Premises	20% declining balance

1. SIGNIFICANT ACCOUNTING POLICIES [CONT'D]

Other assets

Other assets are recorded at cost with amortization being recorded on a straight-line basis as follows:

Deferred development	4 years
Technology assets acquired	4 years
Goodwill	40 years and 10 years

Costs incurred in new product development are deferred if they meet the generally accepted criteria for deferral, net of ITCs. Amortization of deferred development costs and technology assets acquired commences after the earlier of the completion of the product or its first major sale. Costs incurred, net of ITCs, to further develop or enhance existing products and services are expensed as incurred.

Goodwill is amortized on a straight-line basis over 40 years except for the goodwill arising from the Company's acquisitions of Linian Systems Inc. ["Linian"] and Multipath which is amortized over 10 years. The Company assesses the impairment of goodwill by determining whether the unamortized balance can be recovered through future undiscounted operating income of the acquired operations. Any permanent impairment of the value of the unamortized portion of goodwill is written down with a charge against income. No such impairment has been identified to date.

Tenant obligations and inducements

Tenant obligations and inducements are amortized over the terms of the respective leases.

Capital leases

Leases which transfer substantially all the benefits and risks of ownership of the leased asset to the Company are capitalized by recording the present value of future payments under the lease as an asset and a liability on the balance sheet.

Financial instruments

[a] The Company assesses the fair value of its capital lease obligations by discounting future cash flows at current interest rates. At May 31, 1997 and 1996, the fair value of these obligations approximated their carrying values.

Because of their short-term nature, the carrying value of the Company's other financial assets and liabilities approximate their fair values.

[b] Concentration of credit risk

The Company monitors its credit risk associated with amounts receivable. The Company does not have a concentration of customer or geographic credit risk.

Foreign exchange

Current assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year end rate of exchange, and any gains or losses are reflected in income. Revenue and expenses are translated into Canadian dollars at the rate of exchange prevailing at the time of the transaction.

2. ACQUISITION

On November 30, 1995, the Company acquired all of the outstanding shares of Baycom Inc. ["Baycom"], a company that provides computing solutions to the financial services industry. Consideration for the total purchase price of \$16,321,000 was cash in the amount of \$4,356,000 and common shares valued at \$11,965,000.

This acquisition has been accounted for by the purchase method. Consequently, the results of operations and changes in financial position are included in the consolidated statements of income and retained earnings and changes in financial position from the date of acquisition. The excess of acquisition cost over the aggregate fair market value of the acquired net identifiable assets is recorded as goodwill.

Of the 3,400,000 common shares issued from treasury on acquisition, 800,000 common shares were held in escrow pending the achievement of certain financial targets. During 1997, these financial targets were achieved and the 800,000 common shares were released from escrow representing \$3,125,000 [note 8].

[000's]	\$
Working capital deficiency acquired	(1,575)
Capital assets	9,822
Term debt, loans and lease obligations assumed	(10,446)
	(2,199)
Technology assets acquired	1,260
Excess of purchase price over net identifiable assets acquired allocated to goodwill	17,260
Total consideration paid to date	16,321

3. RELATED PARTY TRANSACTIONS

Included in deposits and prepaid expenses at May 31, 1997, is a loan of \$82,680 (1996 - \$86,250) to an officer of the Company to purchase shares of the Company. The loan bears no interest and is repayable during the term, or in full on termination of the officer's employment.

4. CAPITAL ASSETS

Capital assets are comprised of the following:

	1997		1996	
	Cost	Accumulated amortization	Cost	Accumulated amortization
[000's]	\$	\$	\$	\$
Computer network equipment	20,102	11,639	17,476	9,754
Computer processing equipment	27,652	12,361	18,137	7,738
Rental equipment	14,744	9,814	12,872	8,040
Premises	7,445	3,468	5,689	2,688
	69,943	37,282	54,174	28,220
Less accumulated amortization	37,282		28,220	
Net book value	32,661		25,954	

Included in the computer processing equipment balance are assets held under capital leases with a cost of \$15,746,000 (1996 - \$8,556,000).

Accumulated amortization against these assets is \$4,790,000 (1996 - \$1,704,000) and their net book value is \$10,956,000 (1996 - \$6,852,000).

5. OTHER ASSETS

Other assets are comprised of the following:

	1997		1996	
	Cost	Accumulated amortization	Cost	Accumulated amortization
[000's]	\$	\$	\$	\$
Deferred development	6,362	452	1,121	193
Technology assets acquired	2,787	1,111	2,787	388
Goodwill	34,953	8,575	31,828	7,615
	44,102	10,138	35,736	8,196
Less accumulated amortization	10,138		8,196	
Net book value	33,964		27,540	

6. INCOME TAXES

[a] As at May 31, 1997, the Company had net unclaimed deductions related to capital and other assets and scientific research and experimental development expenditures in the amounts of \$8,800,000 and \$3,000,000, respectively, which have no specific expiry dates and are available to reduce taxable income. The deduction for capital assets represents the balance of unclaimed capital cost allowance less the net book value of these assets on the consolidated balance sheets.

No portion of the potential tax savings relating to these carryforward amounts has been reflected in these consolidated financial statements.

[b] During fiscal 1997, the Company accrued ITCs totalling \$600,000, none of which was refundable (1996 - \$235,000 - refundable and \$252,000 - non-refundable). Approximately \$200,000 of the ITCs (1996 - \$330,000) was applied against the current year's research and development expenditures, primarily salaries and benefits, and \$400,000 (1996 - \$157,000) was applied against the cost of deferred development.

[c] Rate Reconciliation

The provision for income taxes expense differs from the expense that would be obtained by applying statutory rates as a result of the following:

	1997	1996
Statutory income tax rate	44.6%	44.6%
Increase (decrease) resulting from:		
Goodwill amortization	9.4%	9.0%
Other	(0.5%)	(1.0%)
Effective income tax rate	53.5%	52.6%
Benefit of losses carryforward from prior years	(53.5%)	(52.6%)
Total	Nil	Nil

7. DEBT AND COMMITMENTS

[a] Credit Facilities

At May 31, 1997, the Company has available from a Canadian bank a line of credit to \$5,000,000 for operating purposes and a revolving term loan of \$5,000,000 for capital expenditures. The bank credit facilities were unused at May 31, 1997.

The bank credit facilities are collateralized by a general security agreement covering all assets and subject to the Company complying with certain financial performance criteria. Borrowings under the credit facility, if any, bear interest at prevailing market rates.

[b] Amounts owing on acquisitions

The Company has arranged irrevocable letters of credit with a Canadian bank in connection with the 1994 acquisition of Linian. Under the terms and repayment schedule of the letters of credit, \$600,000 is due on March 31, 1998 [note 8].

7. DEBT AND COMMITMENTS [CONT'D]

[c] Obligations under capital leases

The Company has entered into various capital leases for computer equipment with imputed interest rates that range from 5.5% to 6.5% and expiry dates to February 2000. The following is a schedule of future minimum lease payments under the capital leases together with the balance of the obligation under the capital leases.

[000's]	\$
1998	4,320
1999	4,278
2000	3,215
Total minimum lease payments	11,813
Less amount representing interest	686
	11,127
Less current portion	3,872
	7,255

[d] Interest

Interest on obligations under capital leases is \$580,000 (1996 - \$341,000). Interest expense in 1996 included \$25,000 of interest on the convertible debenture [note 8].

[e] Operating lease and other commitments

At May 31, 1997, the Company's commitments under operating leases and technology licenses requiring future minimum payments over the next five years are as follows: 1998 - \$3,660,000; 1999 - \$3,695,000; 2000 - \$3,662,000; 2001 - \$3,692,000; 2002 - \$3,685,000 and thereafter \$16,633,000.

8. CAPITAL STOCK

[a] Authorized

The Company has authorized an unlimited number of common shares and an unlimited number of Class B preference shares, issuable in series. The Series 1 Class B preference shares are non-voting, convertible on a one-for-one basis into common shares and bear a cumulative dividend rate of \$0.0025 per share. After the payment of the Series 1 Class B preference share dividends, the shares participate equally with the common shares in any further dividends.

8. CAPITAL STOCK [CONT'D]

[b] Issued

Details of issued share capital are summarized as follows:

	Number of Common Shares	\$ [000's]
Balance May 31, 1995	6,902,090	8,807
Exercise of stock options	36,000	102
Issue of common shares	4,001,877	15,116
Conversion of convertible debenture	1,531,250	3,125
Baycom acquisition [note 2]	2,600,000	8,840
Balance May 31, 1996	15,071,217	35,990
Baycom acquisition [note 2]	800,000	3,125
Exercise of underwriters' warrants	430,000	1,828
Linian acquisition [note 8(c)]	83,613	334
Exercise of stock options	43,630	170
Balance May 31, 1997	16,428,460	41,447

Of the 3,400,000 common shares issued upon the acquisition of Baycom, 800,000 were held in escrow. During 1997, these shares were released from escrow.

On June 29, 1995, the Company issued from treasury 4,001,877 common shares at \$4.00 per share for an aggregate consideration of \$16,008,000 before deducting the Company's share of the expenses of the issue of \$892,000 net of the related tax benefit of \$820,000. The Company granted the underwriters' warrants exercisable on 430,000 common shares at \$4.00 per share before the first anniversary, and \$4.25 per share before the second anniversary of the date of closing. In 1997, \$1,827,500 was received on the exercise of these warrants.

Also on June 29, 1995, the holder of the \$3,000,000 convertible debenture, bearing interest at 11% payable monthly, converted the full amount of the debenture into 1,500,000 common shares of the Company. As consideration for early conversion, the Company paid to the holder \$125,000 which was satisfied by the issuance of 31,250 common shares.

[c] Entitlements

As at May 31, 1997, there are 150,000 (1996 - 275,000) common shares set aside for issuance to the former shareholders of Linian at a price of \$4.00 per share exercisable on March 31, 1998. At the option of the vendors, the balances owing may be paid in cash [note 7]. On March 31, 1997, 83,613 common share entitlements were exercised and 41,387 common share entitlements were settled with cash of \$165,548.

8. CAPITAL STOCK [CONT'D]

[d] Stock option plan

On June 19, 1995, the Board of Directors of the Company approved a new stock option plan [the "1995 Plan"]. The maximum number of common shares which may be set aside for issue under the 1995 Plan and the predecessor plan is 1,200,000, provided that the Board has the right, from time to time, to increase such number subject to the approval of the shareholders of the Company.

During 1997, the Board approved an increase of 300,000 common shares to be set aside for issue under the 1995 Plan, which increase is subject to approval of the shareholders. The maximum number of common shares which may be reserved for issuance to any one person under the 1995 Plan is 5% of the common shares outstanding at the time of the grant less the number of shares reserved for issuance to such person.

Options outstanding at May 31, 1997, were 1,013,274 (1996 - 1,177,912) which expire at various dates until April 14, 2002, at a weighted average price of \$4.05 (1996 - \$4.23) per share.

[e] Income and cash flow per share

Basic income and cash flow from operations per share amounts are calculated using the weighted average number of shares outstanding during each year. Cash flow from operations is calculated before net change in non-cash working capital balances relating to operations. The weighted average number of shares outstanding in 1997 and 1996 was calculated to be 15,522,772 shares and 13,350,060 shares, respectively, and on a fully diluted basis, 17,610,259 and 14,733,634, respectively.

9. COMPARATIVE FIGURES

Certain comparatives have been reclassified to conform with current presentation.

10. SUBSEQUENT EVENTS

On August 5, 1997, the Company purchased substantially all of the net assets of Multipath. Under the terms of this purchase, the Company acquired the Multipath online real-time back-office brokerage accounting software system for \$11,000,000 plus a royalty arrangement based on future revenues. The payment terms are such that \$2,000,000 be paid on August 5, 1997, \$6,500,000 on May 31, 1998, and the remaining \$2,500,000 on May 31, 1999. The last two payments are contingent upon Multipath meeting certain performance milestones and the purchase price will be adjusted if these milestones are not met.

Star Data Systems Inc.

Directors

Phillip H. Doherty
President and CEO
Canadian General
Capital Limited

Leo Smith
Vice Chairman
Star Data Systems Inc.

Peter M. de Auer

Paul K. Bates
President and CEO
Porthmeor Securities Inc.

Christopher S. L. Hoffmann
Partner
McCarthy Tétrault

G. Alan Hutton
President and CEO
Star Data Systems Inc.

Larry P. Klar
Vice President
Canadian General
Capital Limited

Marvin J. Singer
Vice President
and Legal Counsel
Dragon Management

Officers

Phillip H. Doherty
Chairman

Leo Smith
Vice Chairman

G. Alan Hutton
President and CEO

Keith Halbert
Executive Vice President,
Chief Financial Officer
and Secretary

Gerry Rivers
Executive Vice President
Sales and Marketing

Fariba Rawhani
Senior Vice President
Technology and Development

Vaughn McIntyre
Senior Vice President
Organizational and Professional
Development

Mark Longo
Corporate Counsel
and Assistant Secretary

Corporate Directory

**Corporate Headquarters
Markham**
7030 Woodbine Avenue
Suite 800
Markham, Ontario L3R 1A2
Tel: (905) 479-7827
Fax: (905) 479-8359

Toronto
330 Bay Street
Suite 402
Toronto, Ontario M5H 2S8
Tel: (416) 363-7827
Fax: (416) 363-6800

Toronto
100 Wellington Street W.
Suite 700
Toronto, Ontario M5K 1H6
Tel: (416) 866-8900
Fax: (416) 866-8686

North York
4100 Yonge Street
Suite 408
North York, Ontario M2P 2B5
Tel: (416) 226-9333
Fax: (416) 226-2686

Vancouver
650 West Georgia Street
Suite 660
Vancouver, B.C. V6B 4N8
Tel: (604) 683-7600
Fax: (604) 684-4641

Calgary
Gulf Canada Square
410-9th Avenue S.W.
Suite 867
Calgary, Alberta T2P 3C5
Tel: (403) 261-5800
Fax: (403) 261-6860

Winnipeg
360 Main Street
Suite 1470
Winnipeg, Manitoba R3C 3Z3
Tel: (204) 956-4851
Fax: (204) 956-4882

Montreal
1 Place Ville Marie
East Wing, Suite 1615
Montreal, Quebec H3B 2B6
Tel: (514) 392-9700
Fax: (514) 392-9721

Halifax
5251 Duke Street
Suite 441, Duke Tower
Halifax, Nova Scotia B3J 1P3
Tel: (902) 423-1644
Fax: (902) 429-7878

London, England
International House
One St. Katharine's Way
London E1 9UN
England, UK
Tel: (0171) 488-0652
Fax: (0171) 410-0795

Multipath
1 Toronto Street
Suite 900
Toronto, Ontario M5C 2V6
Tel: (416) 865-0756
Fax: (416) 865-1243

New Toronto Location
Opening fall of 1997
Commerce Court South
(corner of Bay and Wellington)
Tel: (416) 363-7827

Listed
The Toronto Stock Exchange
(Trading Symbol: STY)

Registrar and Transfer Agent
Montreal Trust Company
of Canada
Toronto, Ontario

Annual and Special Meeting
Tuesday, September 30, 1997
11 a.m.
The Design Exchange
234 Bay Street, TD Centre
Toronto, Ontario

Auditors
Ernst & Young
Toronto, Ontario

**For investor relations contact
Corporate Marketing:**
E-Mail: marketing@stardata.ca
Web Site: www.stardata.ca

7030 Woodbine Ave., Suite 800, Markham, Ontario L3R 1A2
Tel: (905) 479-7827 Fax: (905) 479-8359



marketing@stardata.ca
www.stardata.com